



FINANCIAL VIABILITY

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ANNUAL FINANCIAL STATEMENTS

The audited financial statements for the year ended 30 June 2009 are attached as annexure. The audit report and corrective action plan are included.

The annual financial statements for 2008/09 were compiled in GRAP format by external consultants and submitted to the Office of the Auditor-General after the due date prescribed by the MFMA. Late submission was due primarily to the incidence of ill health of both the CFO and the principal consultant. Conversion to GRAP and Accounting Standards require significant changes in accounting policies and disclosure practices, which conversion is further complicated by continual changes in Accounting Standards and conflicting interpretations of standards by the Accounting Standards Board, the Auditor-General and practitioners. The asset valuations and asset register have been completed, with asset maintenance planning and asset management strategies still to be formulated and implemented in the next financial year..

Related Financial Information

Aspects of general interest taken from the annual financial statements are reflected below. These tables are provided as additional information and do not replace the detailed financial statements in the annexure.

Performance against budget

Financial Year	Operating Revenue				Operating Expenditure			
	Budget R'000	Actual R'000	Diff. R'000	% deviation %	Budget R'000	Actual R'000	Diff. R'000	% deviation %
2005/06	35,330	34,756	-574	-1.62	35,330	36,383	1,053	2.98
2006/07	52,269	52,565	296	0.57	52,259	67,615	15,356	29.38
2007/08	52,609	50,895	-1,714	-3.26	52,934	51,305	-1,629	-3.08
2008/09	67,748	66,801	-947	-1.40	62,796	55,045	-7,751	-12.34

The significant increase in actual expenditure over budget is due to the abnormal provision for doubtful debt. Provision was made in accordance with accepted accounting standards and had not been budgeted for. This provision is deemed realistic as the true state of outstanding service debtors has not been adequately disclosed or dealt with in the past.

Gross outstanding consumer debtors per service

Financial year	Rates R'000	Trading services (Electricity and Water) R'000	Economic services (Sewerage and Refuse) R'000	Housing rentals R'000	Other R'000	Total R'000
2007/08	7,877	2,857	15,479	413	0	26,626
2008/09	10,557	4,118	19,469	111	596	34,851
Difference	2,680	1,261	3,990	-302	596	8,225
% growth	34.0	44.0	25.8	-67.0	+100.0	30.9

The increase in service debtors growth is attributable to a number of factors, primarily the inability to effect proper credit control on basic non-disruptable services such as refuse, sewage and water. Debtors management is a high priority for management in the new year.

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Total debtors age analysis

Financial Year	Debtor age analysis				
	Less than 30 days R'000	Between 30-60 days R'000	Between 60-90 days R'000	More than 90 days R'000	Total R'000
2007/08	1,842	506	392	23,886	26,626
2008/09	2,130	643	528	31,932	35,233
Difference	288	137	136	8,046	8,607
% growth	15.6	27.1	34.7	33.7	32.3

The debtors age analysis underscores the absence of effective credit control and debtors management in prior years. The outstanding portion over 90 days represents 93.5% of the total debtors book at year-end, with a correspondingly low collectibility factor.

Staff cost as % of total operating expenditure

Financial year	Total Expenditure on Salaries and Allowances (R'000)	Total Expenditure (R'000)	Percentage (%)
2005/06	9,480	27,434	34.6
2006/07	10,678	31,584	33.8
2007/08	12,990	38,782	33.5
2008/09	14,972	43,126	34.7

- Total operating expenditure in the above table excludes grant expenditure and bad debt provisions as these factors tend to distort the actual expenditure patterns. Although the cost ratio appears high it must be noted that many vacancies have not been filled and that the nature of the service delivery model will necessitate an abnormally high personnel cost level.

Level of reliance on grants and subsidies

Financial year	Total Grants & Subsidies received R'000	Total Operating Revenue R'000	Percentage (%)
2005/06	8,543	34,756	24.6
2006/07	23,534	52,565	44.8
2007/08	53,531	50,894	105.2
2008/09	29,307	65,683	44.6

Grant funding is indispensable for sustainable basic service delivery and needs to be increased if acceptable service standards are to be maintained. The current economic climate and finance generating capabilities cannot meet the required demand.

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Liquidity ratio

Financial year	Net current assets (R'000)	Net current liabilities (R'000)	Ratio
2005/06	30,486	24,213	1.26:1
2006/07	13,988	19,240	0.73:1
2007/08	16,361	20,335	0.80:1
2008/09	18,613	26,106	0.71:1

Kannaland has experienced severe financial constraints over the past five years. One of the key strategies of the financial recovery plan is the restoration of cash-backed donor funding and the rebuilding of financing reserves.

Audit Report 2008/09

The draft at report issued by the Auditor-General on 04 December 2009 is repeated below.udi

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF KANNALAND MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

1. I was engaged to audit the accompanying financial statements of Kannaland Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages XX to XX.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the

Standards of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of

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the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

4. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by Kannaland Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis for disclaimer of opinion

Housing development fund

5. The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R760,427 in respect of the 2008-09 financial year. This balance has not changed since the 2005

financial year. This balance originates from the 2004 financial year. No financial statements were submitted for audit purposes in that year. Consequently, I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the existence and completeness of the housing development fund opening balance of R760,427 for the financial year under review. My audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.

Government grant reserve

6. The government grant reserve of R56,206,546 (2008: R43,409,023) was included in the financial statements due to a correction of error. Due to inadequate accounting records, I was unable to obtain sufficient appropriate audit evidence to verify and confirm this balance and its relevant disclosure in the statement of changes in net assets.
7. Alternative audit procedures were considered by reconciling the carrying value of assets funded by grants with the closing balance of the government grant reserve of R56,206,546. The government grant reserve reconciles to the carrying value of infrastructure assets funded by grants, except for an immaterial amount. Management indicated that other assets were deemed to have been funded by own funds, because they were unable to determine the funding source of other

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assets. Consequently, I was unable to satisfy myself as to the completeness of the government grant reserve. The municipality's records did not permit the application of reasonable alternative audit procedures.

Accumulated surplus/(deficit)

8. The accumulated surplus/(deficit) of R180,878,958 (2008: R5,023,328) is understated by R2,497,414 (2008: R2,497,414) due to an unspent conditional grant that was utilised during the previous financial years, but is still included as an unspent conditional grant.
9. According to confirmation received from the Western Cape Department of Transport and Public Works, Kannaland Municipality is indebted to the department for outstanding vehicle registration fees collected by the municipality during previous financial years. The total outstanding liability according to the department is R1,529,812. Kannaland Municipality, however, only recognised R1,112,197 as a liability under trade and other payables. Consequently, accumulated surplus/(deficit) is overstated by R417,615 and trade and other payables are understated by R417,615.
10. The value of asset additions funded by grants, should be transferred from the accumulated surplus/(deficit) to government grant reserve. The value of asset additions funded by grants of

R384,069 was however not transferred accordingly. Consequently, accumulated surplus/(deficit) is overstated by R384,069 and the government grant reserve is understated by R384,069.

11. The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R5,023,328 in respect of the 2008-09 financial year. This balance originates from the 2004 financial year. No financial statements were submitted for audit purposes in that year. Every year since the 2004 financial year, misstatements have been reported. These misstatements have never been corrected in the following year in which it was reported. It, therefore, comprises the aggregate misstatements since the 2005 financial year, while also including the 2004 unaudited balance. Consequently, I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the existence and completeness of the accumulated surplus opening balance of R5,023,328 for the financial year under review. My audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.

Provisions

12. Included in the provision of R1,100,000 (2008: R1,432,000), as disclosed in note 6 to the financial statements are the current and non-

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current portion of the provision for rehabilitation of landfill sites, which amounts to R750,000 and R250,000, respectively. Substantive audit evidence indicates that the current and non-current portion of the provision for the rehabilitation of landfill sites should have been recognised at amounts of R1,633,050 and R476,600, respectively. Consequently, the provision for the rehabilitation of landfill sites is understated by an amount of R1,009,650 on the statement of financial position and the provision for landfill site expense in the statement of financial performance is understated by an amount of R1,009,650.

Trade and other payables

13. Included in the South African Revenue Service (SARS) liability of R4,093,988 (2008: R152,271), as disclosed in note 9 to the financial statements is output Value-added Tax (VAT) on consumer debtors amounting to R3,008,477. The municipality is however registered on the payments basis for VAT and, therefore, no liability exists towards SARS at year end. This balance of R3,008,477 should have been classified as trade and other payables. Consequently, trade and other payables is understated by R3,008,477, while SARS liabilities is overstated by the same amount.
14. The corresponding figure for trade and other payables of R5,957,300 was understated by R1,805,052. This understatement represents the

misstatements reported in the previous year that has not been corrected as a result of unrecorded liabilities due to incorrect cut-off. My audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.

Unspent conditional grants and receipts

15. Included in the unspent conditional grants and receipts of R12,989,188 (2008: R10,969,612) is an unspent grant of R2,497,414 the condition of which was the construction of a 132 kva substation. The funding was not used by the municipality to construct the substation. As the funds regarding this grant was utilised in previous financial years, the unspent conditional grant and receipts is overstated by R2,497,414 while accumulated surplus is understated by the same amount.
16. Included in the unspent conditional grants and receipts of R12,989,188 (2008: R10,969,612) is the Value-added Tax portion of grants utilised amounting to R2,320,736, which was not recognised, in accordance with circular 48 of the Municipal Finance Management, 2003 (Act No.56 of 2003), as other income in the statement of financial performance. Consequently, unspent conditional grants is overstated and other income is understated by R2,320,736, respectively.
17. The municipality's records did not permit the application of alternative

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audit procedures regarding opening balances of R10,969,612 in respect of the 2008-09 financial year. This balance originates from the 2004 financial year. No financial statements were submitted for audit purposes in that year. Every year since the 2004 financial year, misstatements have been reported. These misstatements have never been corrected in the following year in which it was reported. Consequently, I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the existence and completeness of the unspent conditional grants opening balance of R10,969,612 for the financial year under review. My audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.

South African Revenue Service liability

18. Included in the South African Revenue Service (SARS) liability of R4,093,988 (2008: R152,271) is R3,008,477 as reported in paragraph above, which should have been classified as trade and other payables. Consequently, the SARS liability is overstated by R3,008,477 and trade and other payables is understated by R3,008,477.
19. Included in the SARS liability of R4,093,988 (2008: R152,271) is a VAT input claim amount of R492,419 receivable from SARS. The payment of the creditors relating to the input VAT of R492,419 was, however, not made.

As the municipality is registered on the payments basis for VAT purposes, this amount is not yet receivable from SARS. Consequently, the SARS liability is understated by R492,419 and trade and other payables is overstated by R492,419.

Property, plant and equipment

20. As described in note 10 to the financial statements, property plant and equipment (PPE) was adjusted prospectively by R150,986,968, which was based on the depreciated replacement cost as at 30 June 2009. This accounting treatment is not in accordance with GRAP 3 *Accounting Policies, changes in accounting estimates and errors*, as the municipality did not adjust for a correction of error retrospectively. The accounting officer believed that it was impracticable to obtain historical information on property plant and equipment, thus making it impossible to perform retrospective restatement on initial adoption of GRAP. Consequently, the adjustment to PPE, depreciation, accumulated surplus/ (deficit), fair value adjustment and accumulated depreciation, as well as the resultant impact on the cash flow statement has not been determined.
21. Included in the carrying value of R261,713,408 (2008: R68,761,637) is infrastructure assets of R244,424,590 (2008: R51,852,549). The infrastructure assets have been unbundled from the previous year. The opening

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balance of R51,852,549 does, however, not correspond to the closing balance of R48,711,400 as disclosed in note 11 of the prior year financial statements. Furthermore, the infrastructure asset register does not incorporate reference to opening balances or the fair value adjustments made to individual assets. I was, therefore, unable to satisfy myself as to the existence and completeness of the opening balance of infrastructure assets and the valuation of the fair value adjustment of R152,620,546 disclosed in note 10 to the financial statements, as no supporting documentation was provided to substantiate these balances.

22. Land and buildings to the value of R20,003,200 registered in the name of the municipality according to the general valuation roll were not recognised as property, plant and equipment. The municipality's records did not permit the application of alternative audit procedures regarding the identification of land and buildings to be included in property, plant and equipment. I was, therefore, unable to confirm or verify by alternative means the completeness of property, plant and equipment with a carrying value of R261,713,408 (2008: R68,761,637), as disclosed in note 10 to the financial statements.
23. Included in the carrying value of R261,713,408 (2008: R68,761,637) for property, plant and equipment are

assets described as housing development fund assets with a carrying value of R11,515,019. Due to inadequate accounting records, I was unable to obtain sufficient appropriate audit evidence to verify these assets, as no asset register or details were provided. Consequently, I was unable to satisfy myself as to the completeness, valuation and existence of those housing development fund assets, as described with a carrying value of R11,515,019.

24. Included in the carrying value of R261,713,408 for property, plant and equipment disclosed in note 10 to the financial statements, are other assets with an opening cost balance and an opening accumulated depreciation balance of R9,801,812 and R4,407,763, respectively, while the opening cost and opening depreciation value according to the asset register is R4,931,758 and R1,940,986, respectively. Furthermore, the other assets asset register does not incorporate references to the fair value adjustments made to individual assets. Consequently, I was unable to satisfy myself as to the completeness and existence of the opening cost and accumulated depreciation balances of R9,801,812 and R4,407,763, respectively. I was also unable to satisfy myself as to the valuation of the fair value adjustment of R1,633,578, as disclosed in note 10 to the financial statements.

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25. No asset additions were disclosed in note 10 to the financial statements, while the asset register for other assets, discloses asset additions to the value of R4,430,891. Consequently, the disclosure in note 10 for asset additions is incomplete.
26. Disposal of assets were not disclosed in note 10 to the financial statements, although disposals of assets with a carrying value of R526,377 was identified. Consequently the disclosure in note 10 for asset disposals is incomplete.
27. The depreciation for other assets as disclosed in note 10 to the financial statements is R2,402,602. This is the total depreciation charge for assets according to note 10 to the financial statements, although the total depreciation according to the Statement of Financial Performance is R461,616. The difference of R1,940,986 represents the recalculated opening depreciation according to the register for other assets. Consequently, I was unable to satisfy myself as to the valuation and accurate disclosure of the depreciation of other assets of R2,402,602.
28. The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R68,761,637 in respect of the 2008-09 financial year. This balance originates from the 2004 financial year. No financial statements

were submitted for audit purposes in that year. Every year since the 2004 financial year, misstatements have been reported. These misstatements have never been corrected in the following year in which it was reported. Consequently, I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the existence and completeness of the property, plant and equipment opening balance of R68,761,637 for the financial year under review. My audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.

Consumer debtors

29. The impairment of consumer debtors was not calculated in accordance with the accounting policy, as disclosed in note 1.6 to the financial statements, and is, therefore, in contravention with paragraph 64 of IAS 39 *Financial instruments: Recognition and measurement*. The provision for the impairment of consumer debtors is stated as R27,910,866 (2008: R23,042,475) in note 13 to the financial statements. If the provision for impairment of consumer debtors have been calculated in accordance with the accounting policy, as disclosed in paragraph 1.6 of the financial statements, and paragraph 64 of IAS 39 *Financial instruments: Recognition and measurement*, the consumer debtors of R6,940,416 (2008: R3,583,487) would have been decreased by R4,023,265 and

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impairment of debtors would be increased by a VAT exclusive amount of R3,679,560.

30. Kannaland Municipality failed to recognise certain bulk electricity levies as service charges in the correct period in accordance with GRAP 9 *Revenue from exchange transactions*. If these bulk electricity levies were recognised in the correct period, the consumer debtors would have increased by R569,195 and service charges would have increased by a VAT exclusive amount of R499,294.
31. Included in the consumer debtors of R6,940,416, is other debtors of R606,369 incorrectly classified as consumer debtors due to the inconsistent allocation of votes between the current and the previous year's financial statements. This incorrect allocation resulted in an overstatement of consumer debtors and an understatement of other debtors by R606,369.
32. The total of consumer debtors per category, were disclosed as R34,686,202 in note 13 to the financial statements, whilst the total gross consumer debtors amounts to R35,233,316. This resulted in an understatement in the disclosure of consumer debtors per category of R549,659.
33. The corresponding figure for consumer debtors of R3,583,487 was under-

stated by R2,200,128. This understatement represents misstatements reported in the previous year that has not been corrected as a result of an inaccurate impairment of debtors. My audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.

Other debtors

34. Included in other debtors of R3,502,382 (2008: R801,075), as disclosed in note 14 to the financial statements is grant debtors receivable of R644,986 which is not recoverable. Consequently other debtors are overstated by R644,986 and general expenses are understated by R644,986.
35. Furthermore, other debtors of R606,369 was incorrectly allocated as consumer debtors as reported in paragraph above. Consequently other debtors are understated by R606,369.

Property rates

36. The disclosure of the valuation of land and buildings at R410,722,000 does not agree to the valuation according to the valuation roll of R396,255,000. Consequently, the value of land and buildings disclosed in note 18 to the financial statements is overstated by R14,467,000

Service charges

37. Service charges have not been disclosed as gross revenue less cost of free services or discounts in the

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statement of financial performance as required by GRAP 9 *Revenue from exchange transactions*. The cost of free services of R2,509,480 was incorrectly allocated to grants paid. Consequently service charges and grants paid is overstated by R2,509,480, respectively.

38. As reported in paragraph , the service charges of R26,544,246 is understated by R499,294 and consumer debtors is understated by R569,196.

Government grants and subsidies received

39. Included in government grants and subsidies received of R27,962,818 (2008: R52,229,500) disclosed in the statement of financial performance is an amount of R4,268,034 for which I was unable to obtain sufficient appropriate audit evidence. I was, therefore, unable to carry out all the audit procedures I considered necessary for the audit. Consequently, I was unable to satisfy myself as to the occurrence and accuracy of the R4,268,034 recognised in government grants and subsidies.
40. The government grants and subsidies received of R27,962,818 (2008: R52,229,500) consists of the “conditions met and transferred to revenue” of R19,066,398 and the total equitable share grant received of R9,925,473, as disclosed in note 20 to the financial statements. The difference between the government

grants and subsidies received of R27,962,818, as disclosed on the face of the statement of financial performance and the amount of R28,991,871 (the sum total of the before mentioned amounts of R9,925,473 and R19,066,398) is R1,029,053. I was unable to obtain sufficient appropriate audit evidence to substantiate this difference. Consequently, I am unable to satisfy myself as to the completeness and accuracy of the “conditions met and transferred to revenue” as disclosed in note 20 to the financial statements.

Fines

41. An estimate of revenue from spot fines and summonses based on past experience of amounts collected has not been recognised in accordance with the accounting policy, as disclosed in note 1.15.2 to the financial statements. The history of spot fines and summonses was not available, therefore, I was unable to make a reliable estimate of revenue from spot fines. Consequently, I was unable to satisfy myself as to the completeness of R1,960,769 (2008: R641,424) revenue from fines, recognised in the statement of financial performance.

Other revenue

42. As reported in paragraph above, other revenue is understated by R2,320,736 due to the Value-added Tax portion on grants utilised not allocated to other revenue.

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43. Included in other revenue of R908,022 (2008: R 1,502,463), as disclosed in the statement of financial performance, is repayments of the “self build scheme” to the value of R99,757. I was unable to obtain sufficient appropriate audit evidence to substantiate the completeness and accuracy of this amount. Consequently, I am unable to satisfy myself as to the completeness and accuracy of the “self build scheme” revenue recognised as other revenue, as disclosed in the statement of financial performance to the financial statements.

Depreciation and amortisation

44. Included in depreciation and amortisation of R461,616 (2008: R3,011,301), as disclosed in the statement of financial performance, is an incorrect classification of a credit for accumulated depreciation on disposal of assets amounting to R668,128. This resulted in the understatement of depreciation and amortisation and the fair value adjustment by R668,128, respectively.
45. Furthermore, depreciation is disclosed as R2,402,602 in note 10 to the financial statements, while the depreciation and amortisation is disclosed as R461,616 in the statement of financial performance. Consequently, the presentation and disclosure of depreciation and amortisation is misstated in the financial statements.

General expenses

46. Included in the general expenses of R15,376,969, as disclosed in the statement of financial performance, is grant expenditure amounting to R6,539,615 incorrectly classified as general expenses. This resulted in an overstatement of the general expenses by R6,539,615 and an understatement of the grants and subsidies paid by R6,539,15.
47. As reported in paragraph , general expenses of R15,376,969 is understated by R644,986 due to grants receivable included under other debtors being irrecoverable.

Grants and subsidies paid

48. As reported in paragraph , the grants and subsidies paid of R1,266,106 (2008: R9,746,843), as disclosed in the statement of financial performance, is understated by R6,539,615 due to the incorrect classification as general expenses.
49. As reported in paragraph , the grants and subsidies paid of R1,266,106, as disclosed in the statement of financial performance, is overstated by R2,509,480 due to the incorrect classification of service charges revenue.
50. Total expenditures from grants to the value of R1,010,884 could not be reconciled with the grant expenditures recognised in the statement of financial performance. Consequently, I did not

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obtain sufficient appropriate audit evidence to verify the completeness and accuracy of the grants and subsidies paid in the statement of financial performance.

Fair value adjustment

51. I was unable to obtain appropriate supporting documentation regarding the fair value adjustment of R177,599,581 (2008: R0) disclosed in the statement of financial performance. Consequently, I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the occurrence, accuracy and completeness of the fair value adjustment.

Inaccuracy of the cash flow statements

52. The increase in cash and cash equivalents for the year on the "Increase/(decrease) in cash and cash equivalents" line in the cash flow statement, stated that cash and cash equivalents increased by R2,047,840, while cash and cash equivalents have in fact decreased by R2,047,840 according to the movement cash and cash equivalents between the beginning of the year and the end of the year, as disclosed at the end of the cash flow statement. This translates to an error of R4,095,680. I am, therefore, unable to satisfy myself as to the accuracy of the cash flow statement.

Commitments

53. An amount of R896,000 was incorrectly recognised and included in

the commitments of R9,952,660 (2008: R17,780,000), as disclosed in note 32 to the financial statements.

Non-compliance with the Supply Chain Management Regulations

Unauthorised, irregular or fruitless and wasteful expenditure

54. Management has not complied with the Supply Chain Management Regulations. An appropriate tender process or request for quotations, as required by the Supply Chain Management Regulations, was not followed for expenditures incurred to the value of R1,659,148. Consequently, expenditure of R1,659,148 should have been disclosed as irregular expenditure.
55. Management have also not complied with the supply chain management policy regarding the appointment of the consultant referred to in paragraph 75. A proper tender process, as required by the supply chain management policy for services to the value of more than R200,000, was not followed for the specific appointment.
56. The extent of the irregular expenditures could not be evaluated as a proper supply chain management system does not exist. Consequently, I was unable to satisfy myself as to the completeness of irregular expenditures for the year.

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57. Fruitless and wasteful expenditures of R45,409 and R702,279 for the current and previous financial years, respectively relating to interest and penalties on outstanding PAYE, UIF and SDL, were not disclosed as fruitless and wasteful expenditure, as required by section 125(2)(d) of the MFMA.

Non-compliance with the financial reporting framework

GRAP 3 *Accounting policies, changes in accounting estimates and errors*

58. The statement of Generally Recognised Accounting Practice, GRAP 3 *Accounting Policies, changes in accounting estimates and errors*, states that changes in accounting policies and errors should be adjusted retrospectively. GRAP 3 also states that in applying paragraph 42 of GRAP 3, an entity shall disclose the following:
- (a) the nature of the prior period error
 - (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
 - (c) the amount of the correction at the beginning of the earliest prior period presented, and
 - (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of

how and from when the error has been corrected.

Nor the disclosure in the statement of changes in net assets nor note 27: "Correction of error" disclosed what the previously reported balance was, what the correction was that was effected to the line item, and what the restated balance was. The financial statements are, therefore, in non compliance with the requirements of GRAP 3 *Accounting Policies, changes in accounting estimates and errors*.

GRAP 12 *Inventory*

59. Unused water was not calculated and recognised in accordance with the accounting policy, disclosed in note 1.11 to the financial statements. This is, therefore, in non compliance with GRAP 12 *Inventory*. Consequently, I was unable to verify the completeness of the inventory of R109,860 disclosed in the financial statements.
60. GRAP 12 *Inventory* (paragraph 45(d)) requires disclosure of the amount of inventory recognised as an expense during the period. An amount of R948,946 was recognised as an expense during the period, but was not disclosed.

GRAP 16 *Investment property*

61. The statements of Generally Recognised Accounting Practice, GRAP 16 *Investment property* states that all property held for capital appreciation, to earn rentals or held for

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an undetermined use must be recognised as investment property in the financial statements. Kannaland Municipality did not recognise any investment property in the financial statements, and is, therefore, in contravention with Generally Recognised Accounting Practice and the requirements of GRAP 16 *Investment property*.

IAS 19 Employee Benefits

62. Management have not made disclosures regarding retirement benefit obligations, as required by IAS 19 *Employee Benefits*, and are, therefore, in contraventions with the Standards of Generally Recognised Accounting Practice.

IAS 24 Related party disclosure

63. Management have not made disclosures regarding related party balances and transactions in the financial statements, as required by IAS 24 *Related party disclosure*, and are, therefore, in contravention with the Standards of Generally Recognised Accounting Practice. Related party transactions of R138,055 and related party balances of R33,103 were identified, but not disclosed.
64. Section 45 of the Municipal Supply Chain Management Regulation was not complied with regarding the disclosure of awards made to close family members of persons in the service of the state. A contract was

awarded to a concern of whom the owner is related to a council member and an employee at the municipality. An amount of R41,609 was paid to him during the year.

IFRS 7 Financial instruments: *Disclosure*

65. Management have not made disclosures, as required by IFRS 7 *Financial instruments: Disclosure*, and are, therefore, in contravention with the Standards of Generally Recognised Accounting Practice.

Disclaimer of opinion

66. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

I draw attention to the following matters on which I do not express a disclaimer of opinion:

Significant uncertainties

Contingent liabilities – unfair dismissal of 24 employees

67. As disclosed in note 33 to the financial statements, there is a possible outflow of economic resources exists due to a pending court decision regarding the possible unfair dismissal of 24 employees.

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Restatement of corresponding figures

68. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2008-09 in the financial statements of Kannaland Municipality at, and for the year ended, 30 June 2008.

Other matters

I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

Material inconsistencies in other information included in the annual report

69. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

70. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express as opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

71. The payment reports, as required by section 11(4) of the MFMA, were submitted with zero amounts and not with actual payment amounts.

72. The mayor of the municipality did not at least 10 months before the start of the new financial budget year, table in the municipal council a time schedule outlining key deadlines regarding the budgeting process, as required by section 21 of the MFMA.

73. Deviations from chapter 11 of the MFMA with regard to the deviations from the Supply Chain Management Regulations that were identified and stated in paragraph numbers, and 56.

74. The draft service delivery and budget implementation plan for the budget year was not submitted to the mayor within 14 days after the approval of the annual budget, as required by section 69(3) of the MFMA as well as drafts of annual performance agreements for the municipal manager and all senior managers, as required by section 57(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

75. The requirements of section 71 of the MFMA for the monthly budget statements were only complied with for the period of January 2009 to March 2009. No monthly budget statements were submitted for the other periods during the year, as required by section 71 of the MFMA.

76. The mid-year budget and performance assessment, as required by section 72 of the MFMA, was not assessed or submitted during the year.

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77. The disclosure of grants and subsidies, as required by section 123 of the MFMA were not presented and disclosed in the financial statements.
78. Arrears of R1,378 owed by individual councillors to the municipality for rates and services and which at any time during the financial year were outstanding for more than 90 days, including the names of those councillors, as required by section 124 of the MFMA, were not disclosed in the financial statements.
79. The oversight report was not adopted by the council within two months after the annual report was tabled by council, as required by section 129(1) of the MFMA.
80. In terms of section 122(3) of the MFMA, the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. Kannaland Municipality has not provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1 *Presentation of Financial Statements*.

Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, 2006

81. Performance bonuses for the 2008 financial year of R257,264 were paid to the directors before the annual report for the financial year under review has been tabled and was adopted by the municipal council. This payment was in contravention with section 8 of the relevant general notice.

Governance framework

82. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

83. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised

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according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
5	Housing development fund	5				
6, 7	Government grant reserve	5				
8-11	Accumulated surplus	5				
12	Provisions	5				
13, 14	Trade and other payables	5				
15-17	Unspent conditional grants and receipts			3 & 6		
18, 19	SARS liabilities	5				
20 - 28	Property, plant and equipment	1 & 5				
60	Investment property	5				
58, 59	Inventory	1				
29-33	Consumer debtors	5		6		
34, 35	Other debtors	5		6		
36	Property rates	5				
37, 38	Service charges	5				
39, 40	Government grants and subsidies received	5		6		
41	Fines revenue			6		
42, 43	Other revenue	5		6		
44, 45	Depreciation and amortisation	5				
46, 47	General expenses	5				
48-50	Grants and subsidies paid	5				
51	Fair value adjustment	5				
53	Commitments	5				
54, 55	Non-compliance with the Supply chain management policy	1		6		
54-56	Unauthorised, irregular or fruitless and wasteful expenditure	1 & 5		6		
57-64	Non-compliance with the accounting standards	5				

84. The control environment establishes the foundation for the internal control system by providing fundamental discipline and structure. It sets the tone of the organisation, influencing the control consciousness of its people. The control environment has a pervasive effect on control consciousness and effectiveness within the entity. From the numerous disclaimer paragraphs as reported above, it is evident that the accounting officer did not exercise oversight over financial reporting and internal control. Also contributing to the weak control environment, responsibilities have not been adequately allocated to the

relevant staff members and reporting lines have not been established to support effective control over financial reporting.

Control activities are policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out. From the numerous disclaimer paragraphs as reported above, it is evident that actions are not taken to address risks to the achievement of financial reporting objectives.

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Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

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Key governance responsibilities

85. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Yes	No
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		x
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		x
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		x
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.		x
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.		x
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	x	
	• The audit committee operates in accordance with approved, written terms of reference.	x	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		x
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	x	
	• The internal audit function operates in terms of an approved internal audit plan.	x	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		x
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		x
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		x
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	x	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.		x
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	x	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		x
14.	SCOPA resolutions have been substantially implemented.	n/a	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		x
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		x
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA (municipalities).		x
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		x

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86. With the implementation of the Standards of GRAP, the municipality experienced difficulties in producing financial statements for audit purposes that were free from material errors and omissions. In the absence of key officials, significant difficulties were experienced during the audit concerning delays or the availability of requested information, which caused material misstatements in the financial statements due to a limitation placed on the auditors.
 - complete financial statements
 - produce monthly financial accounts for review by management
 - subject the financial statements to a quality review before they are submitted for auditing, while the internal audit unit and audit committee can assist with evaluating the adequacy of the design and implementation of the controls around the preparation of the financial statements.
87. This is indicative of a situation where more effective leadership supervision and monitoring, as well as sharpened reviews by internal audit and the audit committee is required to ensure the accuracy and completeness of the financial statements submitted for audit purposes.
88. The next few years will pose greater challenges for the municipality with the ongoing transition to full compliance with the Standards of GRAP and the implementation of additional, approved Standards of GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit, the municipality needs to:
 - develop a strategy to improve financial management controls relating to compliance with accounting standards and reconciliation and maintenance of underlying accounting records, in order to produce accurate and
89. Further, effective internal control and risk management practices, including fraud prevention plans, as well as appropriate information systems and measures to improve compliance with laws and regulations also need to be established through improved leadership supervision and monitoring and with the support of internal audit and audit committees.
90. The audit committee and internal audit unit are essential elements in the review of the design and implementation of sound internal controls to achieve good governance and accountability over financial reporting and need to be strengthened to fulfill their responsibilities in accordance with the MFMA.
91. The development of a performance management system policy framework that facilitates the preparation of a performance report that is accurate and complete and available for internal and external review in a timely manner,

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requires urgent attention from the accounting officer with the support of internal audit and the audit committee to ensure compliance with section 40 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

92. I was de assessments of the functionality of Kannaland Municipality's performance management system and whether the system complied with the requirements of the MSA.

The accounting officer's responsibility for the performance information

93. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

94. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

95. In terms of the foregoing my engagement included performing

procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

96. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

No reporting of performance information

97. The annual report of Kannaland Municipality did not include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA.

Existence and functioning of a performance audit committee

98. The performance audit committee did not:

- meet at least twice during the financial year
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- review Kannaland Municipality's performance management system and make recommendations in this

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regard to the council of Kannaland Municipality

- submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal auditing of performance measurements

7. The internal audit processes and procedures did not include assessments of the functionality of Kannaland Municipality's performance management system and whether the system complied with the requirements of the MSA.

100. The internal audit processes and procedures did not include assessments of the extent to which Kannaland Municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators.

101. The internal auditors of Kannaland Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

Lack of adoption or implementation of a performance management system

102. Kannaland Municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

No mid-year budget and performance assessments

103. The accounting officer of Kannaland Municipality did not (by 25 January of each year) assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Performance information not received in time

104. I was unable to complete an evaluation of the quality of the performance information, as the information was not received in time.

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APPRECIATION

105. The assistance rendered by the staff of Kannaland Municipality during the audit is sincerely appreciated.

Cape Town

4 December 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

PROPOSED REMEDIAL ACTION PLAN

The Audit Report highlights a number of significant deficiencies endemic to the organisation which have not been adequately addressed since the implementation of the Recovery Plan initiated by the Provincial Department of Local Government in June 2004. Most of the difficulties experienced by the municipality can be addressed only once the required resources, skills and capacity have been established in the municipality. The past three years' audit reports are a clear reflection that this primary need has not yet been addressed. Given the lack of financial capacity and inadequate

recognition by Provincial and National authorities of the scope and extent of actions required to achieve this objective, it comes as no surprise that Kannaland has once again failed to achieve an acceptable audit report. The success of the proposed remedial action plan is subject to the provision of adequate resources and capacity by both Provincial and National Departments to enable Kannaland to meet both its service delivery mandate and governance compliance prescriptions on a viable, affordable and sustainable basis.

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
1	5	Housing Development Fund The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R760,427 in respect of the 2008-09 financial year. This balance has not changed since the 2005 financial year. This balance originates from the 2004 financial year. No financial statements were submitted for audit purposes in that year. Consequently I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the existence and completeness of the housing development fund.					
		We are of the opinion that the housing development fund should never have been created during the conversion to GAMAP/GRAP. However, due to the current status of the fund, approval to write off the fund should be sought from the minister. At the date of this report, no such approval has been received, and the fund will remain intact on the financial statements.	A qualified audit opinion will again be issued regarding the Housing Development Fund, should this balance remain in the statement of financial position.	A detailed motivation for write-off will be prepared for submission to the MEC. Once approval has been received, the Fund will be written off retrospectively.	28/02/2010	Akhile/ Kannaland	
2	6 7	Government Grant Reserve <ul style="list-style-type: none"> The Government Grant reserve of R56 206 546 was included in the financial statements due to a correction of error. Due to inadequate accounting records, the AG were not able to obtain sufficient audit evidence to verify and confirm this balance and its relevant disclosure in the statement of changes in net assets. Alternative audit procedures were considered by reconciling the carrying value of assets funded by grants with the closing balance of the government grant reserve of R56 206 546. The government grant reserve reconciles to the carrying value of infrastructure assets funded by grants, except for an immaterial amount. Management indicated that other assets were deemed to have been funded by own funds because they were unable to determine the funding source of other assets. Consequently, the AG was unable to satisfy himself as to the completeness of the government grant reserve. The municipality's records did not permit the application of reasonable alternative audit procedures 					
		The correction has been made on the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported.	A process will be developed to identify and calculate backlog depreciation on the unbundled infrastructure assets. The relevant depreciation component attributable to Grant Funded assets will subsequently be allocated to the Reserve and disclosed as a correction of error in the 2010 Annual Financial Statements.	31/03/2010	Akhile/ Aurecon/ Kannaland	

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
2	8	Accumulated Surplus/(deficit) The accumulated surplus/(deficit) of R180,878,958 (2008: R5,023,328) is understated by R2,497,214 (2008: R2,497,214) due to an unspent conditional grant that was utilised during the previous financial years, but is still included as an unspent conditional grant.					
		The disclosure regarding the fruitless and wasteful expenditure on the interest of the loan has been made on the AFS. The fruitless and wasteful component of the interest on the loan has also been disclosed, along with the correction of error regarding the recognition of the revenue in prior financial periods.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
2	9	Accumulated surplus/(deficit) The vehicle registration liability according to the Department of Transport is R1,529,812. The current liability disclosed under trade and other payable is R1,112,197. The unrecorded liability is therefore R41, 615.					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter will be included in the audit report due to the aggregate effect on the accumulated surplus/(deficit).	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
2	10	Accumulated surplus/(deficit) The value of asset additions funded by grants, should be transferred from accumulated surplus/(deficit) to government grant reserve. The value of asset additions funded by grants of R384,069 was however not transferred accordingly. Consequently, accumulated surplus/(deficit) is overstated by R384,069 and the government grant reserve is understated by R384,069.					
		All the Infrastructure assets will automatically form part of the Infrastructure asset register (because a full asset identification and valuation exercise was done by Aurecon) and thus part of the figure shown on the Financial Statement for Assets. This applies to the movable assets as well. The only correction that needs to be made will be to credit Grant Expenditure and debit Fair Value Adjustment with the relevant correction amount.	The amendments to the financial statements were not submitted in time. The matter will be included in the audit report due to the aggregate effect on accumulated surplus/(deficit).	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
2	11	Accumulated surplus/(deficit) The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R5,023,328 in respect of the 2008-09 financial year. This balance originates from 2004 financial year. No financial statements were submitted for audit purposes in that year. Every year, since the 2004 financial year, misstatements have been reported. These misstatements have never been corrected in the following year in which it was reported. It, therefore, comprises the aggregate misstatements since the 2005 financial year, while also including the 2004 unaudited balance. Consequently, the AG did not obtain sufficient appropriate audit evidence considered necessary to satisfy himself as to the existence and completeness of the accumulated surplus opening balance of R5 023 328 for the financial year under review. The audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.					
		It is not possible to verify or recalculate the impact of the 2004 financial year misstatements.	The amendments to the financial statements were not submitted in time. The matter will be included in the audit report due to the aggregate effect on the accumulated surplus/(deficit).	A detailed analysis of all misstatements and corrections for subsequent financial years will be prepared and reconciled with the 2009 financial statements.	31/03/2010	Akhile	
3	12	Provisions Included in the provision of R1,100,000 (2008: R1,432,000), as disclosed in note 6 to the financial statements are the current and non-current portions of the provision for rehabilitation of landfill sites, which amounts to R750,000 and R250,000 respectively. Substantive audit evidence indicates that the current and non-current portion of the provision for the rehabilitation of landfill sites should have been recognised at the amounts of R1,633,050 and R476,000, respectively. Consequently, the provision for the rehabilitation of landfill sites is understated by an amount of R1,009,650 on the statement of financial position and the provision for landfill site expense in the statement of financial performance is understated by an amount of R1,009,650.					
		The current provision will remain in the AFS and the exemption as per Directive 4, (Measurement) will be taken up.	The amendments to the financial statements were not submitted in time. The matter is still reported and will be qualified in the audit report.	The calculation for the rehabilitation will be referred back to the service provider in order to obtain clarity on the extent of the cost involved.	28/02/2010	Akhile	

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
3	13	Trade and other payables Included on the South African Revenue Service (SARS) liability of R4 093 988 (2008: R152,271), as disclosed in note 9 to the financial statements is output Value-added Tax (VAT) on consumer debtors amounting to R3,008,477. The municipality is however registered on the payments basis for VAT and therefore, no liability exists towards SARS at year end. The balance of R3,008,477 should have been classified as trade and other payables. Consequently, trade and other payables is understated by R3,008,477, while SARS liabilities is overstated by the same amount.					
		We do not agree with this finding. The VAT amounts included under these votes represent the VAT portion of the debtors. These amounts combine with the other debtor's votes to align with the Debtors age analysis. (3.9). The comparative disclosure will be amended on the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported.	Since the only change to the Financial Statements related to comparative amounts, no further action is required.	N/A	N/A	N/A
3	14	Trade and other payables The corresponding figure for trade and other payables of R5,957,300 was, understated by R1,805,052. The understatement represents the misstatements reported in the previous year that has not been corrected as a result of unrecorded liabilities due to incorrect cut-off. The audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.					
		The financial statements have been amended to include the correction of the misstatements as reported.	No adjustment was made to the financial statements. The matter will be reflected in the audit report as a qualification.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
3	15	Unspent conditional grants and receipts Included in the unspent conditional grants and receipts of R12,989,188 (2008: R10,969,612) is an unspent grant of R2,497,414 the condition of which was the construction of a 132KVA substation. The funding was not used by the municipality to construct the substation. As the funds regarding this grant was utilised in previous financial years, the unspent conditional grant and receipts is overstated by R2,497,414 while accumulated surplus is understated by the same amount.					
		The disclosure regarding the fruitless and wasteful expenditure on the interest of the loan has been made on the AFS. The fruitless and wasteful component of the interest on the loan has also been disclosed, along with the correction of error regarding the recognition of the revenue in prior financial periods.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
3	16	Unspent conditional grants and receipts Included in the unspent conditional grants and receipts of R12,989,188 (2008: R10,969,612) is the Value-added Tax portion of grants utilised amounting to R2,320,736, which was not recognised, in accordance with circular 48 of the Municipal Finance Management, 2003 (Act No.56 of 2003), as other Income in the statement of financial performance. Consequently, unspent conditional grants is overstated and other income is understated by R2,320,736, respectively.					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
3	17	Unspent conditional grants and receipts The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R10,969,612 in respect of the 2008-09 financial year. This balance originates from 2004 financial year. No financial statements were submitted for audit purposes in that year. Every year, since the 2004 financial year, misstatements have been reported. These misstatements have never been corrected in the following year in which it was reported. Consequently, the AG did not obtain sufficient appropriate audit evidence considered necessary to satisfy himself as to the existence and completeness of the unspent conditional grants opening balance of R10,969,612 for the financial year under review. The audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
4	18	South African Revenue Service Liability Included on the South African Revenue Service (SARS) liability of R4,093,988 (2008: R152,271) is R3,008,477 as reported in under 13 above, which should have been classified as trade and other payables. Consequently, the SARS liability is overstated by R3,008,477 and trade and other payables is understated by R3,008,477					
		We do not agree with this finding. The VAT amounts included under these votes represent the VAT portion of the debtors. These amounts combine with the other debtor's votes to align with the Debtors age analysis. (3.9) The comparative disclosure will be amended on the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported.	Since the only change to the Financial Statements related to comparative amounts, no further action is required.	N/A	N/A	N/A

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
4	19	South African Revenue Service Liability Included in the SARS liability of R4,093,988 (2008: R152,271) is a VAT input claim amount of R492,419 receivable from SARS. The payment of the creditor relating to the input VAT of R492,419 was however not made. As the municipality is registered on the payments basis for VAT purposes, this amount is not yet receivable. From SARS. Consequently, the SARS liability is understated by R492,419, and trade and other payables is overstated by R492,419.					
		The cheques were issued in June so the VAT Transaction would lie in the suspense account awaiting process to VAT claim in July. This query should be withdrawn. It should be noted that the items in question relate to cheques issued during June. For AFS purposes, these items were transferred to Creditors. The fact that it was deemed paid, makes them eligible for inclusion under the VAT receivable account. However, in order to align this disclosure/adjustment with the VAT account, an AFS journal will be processed to re-allocate the VAT provision on the items, to the VAT provision account and disclosed separately.	Although this matter is not material individually, in aggregate the misstatement exceeds materiality. This matter is also a non-compliance with the VAT Act.	The VAT component will be disclosed under the VAT provision account as part of a correction of error in the 2010 Annual Financial Statements.	30/06/2010	Kannaland	
4	20	Property, Plant and Equipment As described in note 10 to the financial statements, property, plant and equipment (PPE) was adjusted prospectively by R150,986,968, which was based on the depreciated replacement cost as at 30 June 2009/ This accounting treatment is not in accordance with GRAP 3 Accounting Policies, changes in accounting estimates and errors, as the municipality did not adjust for a correction of error retrospectively. The accounting officer believed that it was impracticable to obtain historical information on property, plant and equipment, thus making it impossible to perform retrospective restatement on initial adoption of GRAP. Consequently, the adjustment to PPE, depreciation, accumulated surplus/(deficit), fair value adjustment and accumulated depreciation, as well as the resultant impact on the cash flow statement has not been determined.					
		Due to the process of fair valuing the assets at 30 June 2009, the calculation as identified per audit finding is not possible.	The amendments to the financial statements were not submitted in time. The matter is still reported.	A process will be developed to identify and calculate backlog depreciation on the unbundled infrastructure assets. The relevant depreciation component attributable to Grant Funded assets will subsequently be allocated to the Reserve and disclosed as a correction of error in the 2010 Annual Financial Statements.	31/03/2010	Akhile/ Aurecon/ Kannaland	

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
4	21	Property, Plant and Equipment Included in the carrying value of R261 713 408 (2008: R68,761,637) is infrastructure assets from the previous financial year. The opening balance of R51,852,549 does, however, not correspond to the closing balance of R48,711,400 as disclosed in note 11 of the prior year financial statements. Furthermore, the infrastructure asset register does not incorporate reference to opening balances or fair value adjustments made to individual assets. The AG was, therefore, unable to satisfy himself as to the existence and completeness of the opening balance of infrastructure assets and the valuation of the fair value adjustment of R152,620,546 disclosed in note 10 to the financial statements, as no supporting documentation was provided to substantiate these balances.					
		Due to the process of fair valuing the assets at 30 June 2009, the calculation as identified per audit finding is not possible.	The amendments to the financial statements were not submitted in time. The matter is still reported.	A process will be developed to identify and calculate backlog depreciation on the unbundled infrastructure assets and a comparable opening balance for disclosure purposes.	31/03/2010	Akhile/ Aurecon/ Kannaland	
4	22	Property, Plant and Equipment Land and buildings to the value of R20,003,200 registered in the name of the municipality according to the general valuation roll were not recognised as property, plant and equipment. The municipality's records did not permit the application of alternative audit procedures regarding the identification of land and buildings to be included in property, plant and equipment. The AG was, therefore, unable to confirm or verify by alternative means the completeness of property, plant and equipment with a carrying value of R261,713,408 (2008: R68,761,637), as disclosed in the note to the financial statements.					
		The asset register: property listing is still in process. The general valuation was not completed in time to incorporate all municipal property in the asset register for June 2009. This will be attended to in the current financial year. (3.17)	The response from management is noted and is not accepted as there is still a non-compliance with the accounting standards of GRAP 17.	Municipal owned land will be identified upon completion of the property listing. These items will be included in the 2010 Annual Financial Statements.	30/06/2010	Akhile / Kannaland	

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
5	23	Property, Plant and Equipment The Housing Development Fund was one of the disclaimer issues in the previous years audit report, as no evidence regarding this balance could be provided. This fund is also not cash backed. Owners of housing schemes are also still charged on a monthly basis. These charges are recognised as revenue and consumer debtors. In another issue raised the validity of this practice is questioned.					
		We are of the opinion that the housing development fund should never have been created during the conversion to GAMAP/ GRAP. However, due to the current status of the fund, approval to write of the fund should be sought from the minister. At the date of this report, no such approval has been received, and the fund will remain intact on the financial statements.	A qualified audit opinion will again be issued regarding the Housing Development Fund, should this balance remain in the statement of financial position.	A detailed motivation for write-off will be prepared for submission to the MEC. Once approval has been received, the Fund will be written off retrospectively.	28/02/2010	Akhile/ Kannaland	
5	24	Property, Plant and Equipment Included in the carrying value of R261,713,408 (2008: R68,761,637) for property, plant and equipment are assets described as housing development fund assets with a carrying values of R11,515,019. Due to inadequate accounting records, I was unable to obtain sufficient appropriate audit evidence to verify these assets, as no asset register or details were provided. Consequently, the AG was unable to satisfy himself as to the completeness, valuation and existence of those housing development fund assets, as described with a carrying value of R11,515,019.					
		Due to the process of fair valuing the assets at 30 June 2009, the calculation as identified per audit finding is not possible.	The amendments to the financial statements were not submitted in time. The matter is still reported.	A process will be developed to identify and calculate backlog depreciation on the unbundled infrastructure assets and a comparable opening balance for disclosure purposes.	31/03/2010	Akhile/ Aurecon/ Kannaland	

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
5	25	Property, Plant and Equipment No asset additions were disclosed in note 10 to the financial statements, while the asset register for the other assets, discloses asset additions to the value of R4,430,891. Consequently, the disclosure in note 10 for asset additions is incomplete.					
		Due to the process of fair valuing the assets at 30 June 2009, to opening balances of assets were reclassified. This will be amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	A process will be developed to identify and calculate backlog depreciation on the unbundled infrastructure assets and a comparable opening balance for disclosure purposes.	31/03/2010	Akhile/ Aurecon/ Kannaland	
5	26	Property, Plant and Equipment Disposals of assets were not disclosed in note 10 to the financial statements, although disposals of assets with a carrying value of R5,526,377 were identified. Consequently, the disclosure in note 10 for asset additions is incomplete.					
		Due to the process of fair valuing the assets at 30 June 2009, to opening balances of assets were reclassified. This will be amended .	The amendments to the financial statements were not submitted in time. The matter is still reported.	A process will be developed to identify and calculate backlog depreciation on the unbundled infrastructure assets and a comparable opening balance for disclosure purposes.	31/03/2010	Akhile/ Aurecon/ Kannaland	
5	27	Property, Plant and Equipment The depreciation for other assets as disclosed in note 10 to the financial statements is R2,402,602. This is the total depreciation charge for assets according to note 10 to the financial statements, although the total depreciation according to the Statement of Financial Performance is R46, 616. The difference of R1,940,986 represents the recalculated opening depreciation according to the register for other assets. Consequently, I was unable to satisfy myself as to the valuation and accurate disclosure of the depreciation of other assets of R2,402,602.					
		No depreciation was written off since a fair value assessment was made as part of the unbundling of infrastructure. The value as at 30/09/2009 therefore represents a value inclusive of any potential increase or decrease in the remaining useful life of these assets and therefore also the carrying value. (3.21)	The response by management is noted. Matter is still reported and results in a limitation of scope in the audit report.	With the assistance of the service provider, a process will be developed to calculate backlog depreciation for disclosure as a correction of error in the 2010 Annual Financial Statements.	31/03/2010	Akhile	

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
5	28	Property, Plant and Equipment The municipality's records did not permit the application of alternative audit procedures regarding opening balances of R68,761,637 in respect of the 2008-09 financial year. This balance originates from 2004 financial year. No financial statements were submitted for audit purposes in that year. Every year, since the 2004 financial year, misstatements have been reported. These misstatements have never been corrected in the following year in which it was reported. Consequently, the AG did not obtain sufficient appropriate audit evidence considered necessary to satisfy himself as to the existence and completeness of R68,761,637 for the financial year under review. The audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
6	29	Property, Plant and Equipment The impairment of consumer debtors was not calculated in accordance with the accounting policy, as disclosed in note 1.6 to the financial statements, and is, therefore in contravention with paragraph 64 of IAS 39 Financial Instruments: Recognition and measurement. The provision for impairment of consumer debtors is stated as R27,910,866 (2008: R23,042,475) in note 13 to the financial statements. If the provision for impairment of consumer debtors have been calculated in accordance with the accounting policy, the consumer debtors of R6,940,416 (2008: R3,583,487) would have been decreased by R4,023,265 and impairment of debtors would be increased by a VAT exclusive amount of R3,679,560.					
		Using REVCO's report as basis assumes ideal conditions and effective recovery actions to be instituted without delay. Management is of the opinion that this is over-optimistic and values should be revised downwards by ±R4m. (6.4)	The amendments to the financial statements were not submitted in time. The matter is still reported and will result in a qualification in the audit report.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
6	30	Consumer Debtors The municipality failed to recognise certain bulk electricity levies as service charges in the correct period in accordance with GRAP 9 Revenue from exchange transactions. If these bulk electricity levies were recognised in the correct period, the consumer debtors would have increased by R569,195 and service charges would have increased by a VAT exclusive amount of R499,294.					
		Averages were used but the meter was not removed by the consumer. The consumer will supply documentation relating to this. According to them there occurred a fault at the voltage transformer that caused the readings to be incorrect and from that point they worked on averages. The consumer will only be able to supply this documentation by 20 October 2009. (1.20)	No management response received regarding the incorrect cut-off to the value of R 569,195.45 levy charged. We agree with the management response regarding the average readings and the supporting documentation was provided and inspected.	The correction in respect of the cut-off will be made with immediate effect.	28/02/2010	Akhile	Completed
6	31	Consumer Debtors Included in the consumer debtors of R6,940,416 is other debtors of R606,369 incorrectly classified as consumer debtors due to the inconsistent allocation of votes between the current and the previous year's financial statements. The incorrect allocation resulted in an overstatement of consumer debtors and an understatement of other debtors by R606,369.					
		Although we agree with the finding, we are of the opinion that the current classification is correct since this aligns with the information from the debtors system. A general note to indicate the reclassification of accounts will be included in the AFS.(4.23)	The amendments to the financial statements were not submitted in time. The matter is still reported.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed
6	32	Consumer Debtors The total of consumer debtors per category were disclosed as R34,686,202 in 13 to the financial statements, whilst the total gross consumer debtors amounts to R35,233,316. This resulted in an understatement in the disclosure of consumer debtors per category of R549,659.					
		The AFS have been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
6	33	Consumer Debtors The corresponding figure for consumer debtors of R3,583,487 was understated by R2,200,128. The understatement represents misstatements reported in the previous year that has not been corrected as a result of an inaccurate impairment of debtors. The audit report on the financial statements as of, and for the year ended 30 June 2008 was modified accordingly.					
		The AFS have been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed
6	34	Other Debtors Included in other debtors of R3,502,382 (2008: R801,075), as disclosed in note 14 to the financial statements is grant debtors receivable of R644,986 which is not recoverable. Consequently other debtors are overstated by R644,986 and general expenses are understated by R644,986.					
		The AFS have been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed
6	35	Other Debtors Furthermore, other debtors of R606,369 was incorrectly allocated as consumer debtors as reported under item 31 above. Consequently other debtors are understated by R606,369 (2008: R801,075), as disclosed in note 14 to the financial statements is grant debtors receivable of R644,986.					
		The AFS have been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
7	36	Property Rates The disclosure of the valuation of land and buildings at R410,722,000 does not agree to the valuation according to the valuation roll of R396,255,000. Consequently, the value of land and buildings disclosed in note 18 to the financial statements is overstated by R14,467,000.					
		The note has been amended. (6.11)	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
7	37	Service charges Service charges have not been disclosed as gross revenue less cost of free services or discounts in the statement of financial performance as required by GRAP 9 Revenue from exchange transactions. The cost of free services of R2,509,480 was incorrectly allocated to grants paid. Consequently service charges and grants paid is overstated by R2,509,480 respectively.					
		We do not agree with this finding, since this approach would constitute the offsetting of expenditure against revenue. Once a free basic service is "billed" it is effectively paid through the Equitable share. Hence the disclosure of the cost component. If the two amounts would be netted off, it would effectively mean that the billing never took place.(5.6) As per discussion held during the steering committee meeting held on the 13th November 2009, this will not be amended, but the comparative disclosure will be adjusted.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The adjustment to the 2008 financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
7	38	Service charges As reported under item 30, the service charges of R26,544,246 is understated by R499,294 and consumer debtors is understated by R569,196.					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
7	39	Government Grants and Subsidies Received Included in the government grants and subsidies received of R27,962,818 (2008: R52,229,500) disclosed in the statement of financial performance is an amount of R4,268,034 for which the AG was unable to obtain sufficient appropriate audit evidence, and was, therefore, unable to carry out all the audit procedures the AG considered necessary for the audit. Consequently, The AG was unable to satisfy himself as to the occurrence and accuracy of the R4,268,034 recognised in government grants and subsidies.					
		The journal has been reviewed and after the reconciliation of the grants, the journal has been revised. The adjusted journal will be provided with the amended AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. Based on the limitation of scope, this matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
7	40	Government Grants and Subsidies Received The government grants and subsidies received of R27,962,818 (R2008: R52,229,500) consists of conditions met and transferred to revenue of R19,066,398 and the total equitable share grant received of R9,925,473, as disclosed in note 20 to the financial statements. The difference between the government grants and subsidies received of R27,962,818, as disclosed on the face of the statements of financial performance and the amount of R28,991,871 (the sum total of the before mentioned amounts of R9,925,473 and R19,066,398) is R1,029,053. The AG was unable to obtain sufficient appropriate audit evidence to substantiate the difference. Consequently, the AG is unable to satisfy himself as to the completeness and accuracy of the conditions met and transferred to revenue as disclosed in note 20 to the financial statements					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
7	41	Fines An estimate of revenue from spot fines and summonses based on past experience of amounts collected has not been recognised in accordance with the accounting policy, as disclosed in the note 1.15.2 to the financial statements. The history of spot fines and summonses was not available; therefore, the AG was unable to make a reliable estimate of revenue from spot fines. Consequently, the AG was unable to satisfy himself as to the completeness of R1,960,769 (2008: R641,424) revenue recognised in the statement of financial performance.					
		Traffic fines are recognised as revenue on receipt only. The theoretic approach is not followed as there is no guarantee that we will actually receive a normative percentage of summonses issued. No provision was made since the information available does not to provide a sufficient basis to establish a reasonable estimate of the collectable fines.(4.21) We agree with the audit finding, however, since there is a major backlog on the processing of the fines, an accurate rate of measurement of future cash flows with regards to the collection of fines could not be determined. Revenue from fines has always been recognised on receipt – no provision is made due to this practice.(5.2)	This matter is regarded as a limitation of scope.	A process will be develop to identify the actual revenue generated from fines, including amounts outstanding at 30 June 2010.	28/02/2010	Akhile	
8	42	Other Revenue As reported under item 16 above, other revenue is understated by R2,320,736 due to the Value-added Tax portion on grants utilised not allocated to other revenue					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
8	43	Other Revenue Included in other revenue of R908,022 (2008: R1,502,463), as disclosed in the statement of financial performance, is repayments of the "self build scheme" to the value of R99,757. The AG was unable to obtain sufficient appropriate audit evidence to substantiate the completeness and accuracy of the amount. Consequently, the AG was unable to satisfy himself as to the completeness and accuracy of the "self build scheme" revenue recognised as other revenue, as disclosed in the statement of financial performance to the financial statements.					
		HDF should never have been part of AFS. Should have been written off with first GRAP conversion.	This matter will be included in the audit report based on the completeness of the revenue.	A detailed motivation for write-off will be prepared for submission to the MEC. Once approval has been received, the Fund will be written off retrospectively.	28/02/2010	Akhile/ Kannaland	
8	44	Depreciation and Amortisation Included in depreciation and amortisation of R461,616 (2008: R3,011,301), as disclosed in the statement of financial performance, is an incorrect classification of a credit accumulated depreciation on disposal of assets amounting to R668,128. This resulted in the understatement of depreciation and amortisation and the fair value adjustment by R668,128, respectively.					
		No depreciation was written off since a fair value assessment was made as part of the unbundling of infrastructure. The value as at 30/09/2009 therefore represents a value inclusive of any potential increase or decrease in the remaining useful life of these assets and therefore also the carrying value. (3.21)	The response by management is noted. Matter is still reported and results in a limitation of scope in the audit report.	The correction will be made with the assistance of the service provider and disclosed as a correction of error in the 2010 annual financial statements.	31/03/2010	Akhile/ Aurecon/ Kannaland	
8	45	Depreciation and Amortisation Furthermore, depreciation is disclosed as R2,402,602 in note 10 to the financial statements, while the depreciation and amortisation is disclosed as R461,616 in the statement of financial performance. Consequently, the presentation and disclosure of depreciation and amortisation is misstated in the financial statements.					
		The AFS has been amended,	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
8	46	General Expenses Included in the general expenses of R15,376,969, as disclosed in the statement of financial performance, is grant expenditure amounting to R6,539,615 incorrectly classified as general expenses. The resulted in an overstatement of general expenses by R6 539 615 and an understatement of grants and subsidies paid by R6,539,615					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
8	47	General Expenses As reported under item 34, general expenses of R 15,376,969 is understated by R644,986 due to grants receivable included under other debtors being irrecoverable.					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The amendments to the financial statements will be prepared with immediate effect.	28/02/2010	Akhile	Completed
8	48	Grants and Subsidies Paid As reported under item 46, the grants and subsidies paid of R1,266,106 (2008: R9,746,843), as disclosed in the statement of financial performance, is understated by R6,539,615 due to incorrect classification as general expenses.					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
8	49	Grants and Subsidies PaidGrants and Subsidies Paid As reported under item 46, the grants and subsidies paid of R1,266,106 (2008: R9,746,843), as disclosed in the statement of financial performance, is overstated by R2,509,480 due to incorrect classification of service charges revenue.					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

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Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
8	50	Grants and Subsidies Paid Total expenditures from grants to the value of R1,010,884 could not be reconciled with the grant expenditures recognised in the statement of financial performance. Consequently, The AG did not obtain sufficient appropriate audit evidence to verify the completeness and accuracy of the grants and subsidies paid in the statement of financial performance.					
		The AFS has been amended.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The reconciliation of the grant expenditures as identified in the audit report will be reconciled with Appendix F.	31/03/2010	Akhile	
9	51	Fair Value Adjustment I was unable to obtain appropriate supporting documentation regarding the fair value adjustment of R177,599,581 (2008: R0) disclosed in the statement of financial performance. Consequently, I did not obtain sufficient appropriate audit evidence considered necessary to satisfy myself as to the occurrence, accuracy and completeness of the fair value adjustment					
		The reconciliation will be provided.	The amendments to the financial statements were not submitted in time. The matter is still reported.	The reconciliation will be re-worked based on the outcomes of the infrastructure asset reconciliation as referred to under item 20.	31/03/2010	Akhile	
9	52	Inaccuracy of Cash Flow Statement The increase in cash and cash equivalents for the year on the "increase/(decrease) in cash and cash equivalents" line in the cash flow statement, stated that cash and cash equivalents increased by R2,047,840, while cash and cash equivalents have in fact decreased by R2,047,840 according to the movement cash and cash equivalents between the beginning of the year and the end of the year, as disclosed at the end of the cash flow statements. This translates to an error of R4,095,680. The AG is therefore unable to satisfy himself as to the accuracy of the cash flow statement.					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
9	53	Commitments An amount of R896,000 was incorrectly recognised and included in the commitments of R9,952,660 (2008: R17,780,000), as disclosed in note 32 to the financial statements.					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
9	54	Non-compliance with the Supply Chain Management Regulations Unauthorised, irregular or fruitless and wasteful expenditure Management has not complied with the Supply Chain Management Regulations. An appropriate tender process or request for quotations, as required by the Supply Chain Management Regulations was not followed for the expenditures incurred to the value of R1,659,148. Consequently, expenditure of R1,659,148 should have been disclosed as irregular expenditure.					
		The financial statements have been updated with the recommended adjustments.	Management response noted, but the matter will still be reported and the deviations regarding SCM control will be followed up during next year's audit.	No further action required.			
9	55	Unauthorised, irregular or fruitless and wasteful expenditure Management has also not complied with the Supply Chain Management policy regarding the appointment of the consultant referred to under item 75. A proper tender process.					
		The municipality takes note of the audit finding, but emphasis the capacity constraints within Kannaland.	Management response noted, but the matter will still be reported and the deviations regarding SCM control will be followed up during next year's audit.			Kannaland	

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
9	56	Unauthorised, irregular or fruitless and wasteful expenditure The extent of the irregular expenditure could not be evaluated as a proper supply chain management system does not exist. Consequently, the AG was unable to satisfy himself as to the completeness of irregular expenditure.					
		Capacity constraints cause lack of due performance. These shortcomings can only be addressed with the implementation of a properly populated staff structure with adequate resources to enable compliance.(6.33)	This matter is still reported and will be followed up during next year's audit.			Kannaland	
9	57	Unauthorised, irregular or fruitless and wasteful expenditure Fruitless and wasteful expenditure of R45,409 and R702,279 for the current and previous financial years, respectively relating to interest and penalties on outstanding PAYE, UIF and SDL, were not disclosed as fruitless and wasteful expenditure, as required by section 125(2)(d) of the MFMA.					
		The adjustment has been made in the AFS.	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
10	58	Non-compliance with the Financial Reporting Framework GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors The Statement of Generally Recognised Accounting Practice, GRAP 3, states that changes in accounting policies and errors should be adjusted retrospectively. GRAP 3 also states that in applying paragraph 42 of GRAP 3, an entity shall disclose the following: (a) the nature of the prior period error (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected (c) the amount of the correction at the beginning of the earliest prior period presented, and (d) if retrospective restatement is impracticable for a particular period, the circumstances that led to the existence of that condition and description of how and from when the error has been corrected. Nor the disclosure in the statement of changes in net assets or note 27 "Correction of error" disclosed what the previously reported balance was, what the correction was that was effected to the line item, and what the restated balance was. The financial statements are therefore, in non compliance with the requirements of GRAP 3					
		The adjustment has been made in the AFS,	The amendments to the financial statements were not submitted in time. The matter is still reported. This matter will be qualified in the audit report.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
10	59	GRAP 12 Inventory Unused water was not calculated and recognised in accordance with the accounting policy, disclosed in note 1.11 to the financial statements. This is, therefore, in non compliance with GRAP 12. Consequently, the AG was unable to verify the completeness of inventory of R109,880 disclosed in the financial statements.					
		There is no water measurement system in place to monitor bulk inflow into the system, and no telemetry system to measure reservoir levels. Technical Services do not have the capacity to provide this information.(5.1)	This matter is regarded as a limitation of scope.	A process will be put in place in order to identify water inventory.	30/06/2010	Kannaland	

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
10	60	GRAP 12 Inventory Paragraph 45(d) requires disclosure of the amount of Inventory recognised as an expense during the period. An amount of R948,946 was recognised as an expense during the period, but was not disclosed.					
		The stock count differences were not previously taken into account on the financial system. The financial statements have been amended.	The amendments to the financial statements were not submitted in time. The matter is reported in the audit report as part of the disclaimer paragraph.	The correction will be made with immediate effect and disclosed as a correction of error in the 2010 annual financial statements.	28/02/2010	Akhile	Completed
10	61	GRAP 16 Investment Property The statements of Generally Recognised Accounting Practice, GRAP 16 Investment properties, states that all property held for capital appreciation, to earn rentals or held for an undeterminable use must be recognised as investment property in the financial statements. Kannaland Municipality did not recognise any investment property in the financial statements, and is, therefore in contravention with GRAP 16.					
		We agree with the audit finding, but since no contract of can be obtained, nor does the property form part of the current asset register, it is impossible to comply too this accounting standard.	This matter is regarded as non-compliance to the accounting standard and will be qualified in the audit report.	A process will be developed to identify all leased properties and a operational lease register will be established.	30/06/2010	Akhile	
10	62	IAS 19 Employee Benefits Management have not made disclosures regarding retirement benefit obligations, as required by IAS 19 Employee Benefits, and are, therefore, in contravention with the Standards of Generally Recognised Accounting Practice.					
		These disclosures have been added to the AFS.	The amendments to the financial statements were not submitted in time. This matter is regarded as non-compliance with the relevant accounting standards.	These disclosures correction will be made with immediate effect.	28/02/2010	Akhile	Completed

ACTION PLAN TO ADDRESS AUDIT FINDINGS IDENTIFIED IN THE MANAGEMENT LETTER (21 JANUARY 2010)

Audit Rep. Page No.	Item No.	Management Response	Auditor's Response	Proposed Action	Expected Completion Date	Responsibility	Status
11	63	IAS 24 Related Party Disclosure Management have not made disclosure regarding related party balances and transactions in the financial statements, as required by IAS 24 Related party disclosure, and are, therefore, in contravention with the Standard of Generally Recognised Accounting Practice. Related party transactions of R138,055 and related party balances of R33,103 were identified, but not disclosed.					
		These disclosures have been added to the AFS.	The amendments to the financial statements were not submitted in time. This matter is regarded as non-compliance with the relevant accounting standards.	These disclosures correction will be made with immediate effect.	28/02/2010	Akhile	Completed
11	64	IAS 24 Related Party Disclosure Section 45 of the Municipal Supply Chain Management Regulation was not complied with the disclosure of awards made to close family members of persons in the service of the state. A contract was awarded to a concern of whom the owner is related to a council member and an employee at the municipality. An amount of R41,609 was paid to him during the year.					
		These disclosures have been added to the AFS.	The amendments to the financial statements were not submitted in time. This matter is regarded as non-compliance with the relevant accounting standards.	These disclosures correction will be made with immediate effect.	28/02/2010	Akhile	Completed
11	65	IFRS 7 Financial Instruments: Disclosure Management have not made disclosures as required by IFRS 7 Financial instruments Disclosure, and are therefore in contravention with the Standards of Generally Recognised Accounting Practice					
		These disclosures have been added to the AFS.	The amendments to the financial statements were not submitted in time. This matter is regarded as non-compliance with the relevant accounting standards.	These disclosures correction will be made with immediate effect.	28/02/2010	Akhile	Completed

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